

WELLS
FARGO

SECURITIES

Session Two: Terms and Definitions

CDIAC Quiz Show

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Fat Cat

Banker

Section 1: 100 points

**Securities that are issued by entities
chartered by the Congress of the
United States**

Agency Securities (GSEs)

The stated rate of interest to be
paid on a debt security

Coupon

A security that has a stated maturity and cannot be called early

Bullet

**Debt instruments issued by a bank
that may be insured**

Certificates of Deposit

The amount paid for a bond above
the par (100%) value

Premium

**Debt instrument issued by a private
company as opposed to one issued
by a governmental entity
or municipality**

**Corporate
Bonds/Securities**

Security that pays a fixed rate
of return

Fixed Income

**An offering of a security specifying
that only the entire amount will
be sold**

All or none

**Securities issued by the U. S.
Treasury Department backed by the
federal government**

Treasury Securities

The date at which a security is due
and payable

Maturity

**Markets where securities are
bought and sold after
original issuance**

**Secondary
Security/Market**

The nominal or face value of a bond

Par Value

The difference between the yields of two different securities, also, the difference between the bid and the asked prices of a security

Spread

A security that is being offered to
the public for the first time

New Issue

Section 2: 200 points

An interest-bearing or discounted security that represents an obligation by the issuer to pay the bondholder specific sum(s) at specific time(s)

Bond

**Interest due to the seller of a bond
that has accumulated from the last
interest payment date to the
sale date**

Accrued Interest

**Bond selling below its redemption
or maturity value**

Discount Bond

A measure used for quoting yield
that represents 1/100 of 1%

Basis Point

**The increase in the value of a bond
between the price of a bond bought
at a discount and the par value**

Accretion

A bond that is redeemable by the issuer prior to the scheduled maturity date

Callable Bond

For 300 points each, name the types of calls:

American/Continuous

European/One time

Bermudan/Qtly/Mo/Ann/etc.

Canary/Callable then Bullet

**Short term obligations issued by
banks, corporations and other
issuers that typically mature
between 1 and 270 days**

Commercial paper

**Established in 1933 this Federal
agency guarantees funds on deposit
in member banks and
thrift institutions**

**Federal Deposit
Insurance Corp (FDIC)**

**Formal evaluation of a companies
credit history and ability to
repay obligations**

Credit Rating

**Risk that a debt holder will not
receive interest and principal
when due**

Default Risk

**Securities industry procedure
where securities that are sold are
paid for using the purchasing
entities custodian or clearing agent**

Delivery vs Pay (DVP)

**Formal statement describing the
scope, roles, responsibilities
and limitation of an
investment program**

Investment Policy

Accounting practice that gradually lowers the cost basis of a bond over the remain life of the security

Amortization

**Security with a variable interest
rate that is tied to another
interest rate**

Floating Rate Bond

If a floating rate security has a maximum rate that it will pay it is said to have a:

Cap

If a floating rate security has a minimum rate that it will pay it is said to have a:

Floor

If a floating rate security has a both a maximum rate and a minimum rate that it will pay it is said to have a:

Collar

**List some the common floating
rate indexes:**

LIBOR

Treasury/CMT

Federal Funds

Prime Rate

The rate of return on a bond; taking into account the annual interest payment, purchase price, redemption value, and remaining time to maturity

Yield / Yield to Maturity

**Service provided by an institution
for the storage and protection of a
customers financial assets**

Safekeeping

**Risk that changes in interest rates
will adversely affect the value of
a portfolio**

**Interest Rate Risk
(Market Risk)**

The relative ease with which a particular security may be bought or sold in volume without significantly effecting the price

Liquidity

Securities that are secured by a
pool of mortgages

**Mortgage Backed
Security**

**The most recently issued Treasury
or benchmark security to a
particular maturity**

On the Run

Section 3: 300 points

**Risk that a bond will be redeemed
by the issuer before the scheduled
maturity date**

Call Risk

**Bonds that become redeemable at
par in the event of a takeover**

Chastity Bonds

**Risk that a financial obligation will
not be paid and a loss will result**

Credit Risk

Weighing one's portfolio to match a broad-based index

Indexing

Study of the financial condition and trends of a company or individual

Credit Analysis

The risk that a security cannot be traded quickly enough to prevent a loss or make the expected profit

Liquidity Risk

**Bank or other financial institution
that keep custody of the financial
assets of companies, individuals
and other entities**

Custodian

**Interest rate used to determine the
Present Value of future cash flows
/ Also the interest rate that the
Federal Reserve charges member
banks for short-term loans**

Discount Rate

Strategy whereby the portfolio manager acquires and holds securities until maturity before reinvesting

Buy and Hold Strategy

The right to buy a security at a
specified price before a
predetermined deadline

Call Option

The spreading of risk by putting
assets into several categories of
investments

Diversification

Profit generated when a security is
priced differently in two or more
markets

Arbitrage

**In mutual funds: the market value
of a fund share**

Net Asset Value

Risk that a bond will suddenly decline in credit quality (and be downgraded) due to a takeover or related development, such as additional debt or a recapitalization

Event Risk

**Adjustment of the value of a
security or portfolio to reflect
current market values**

Mark to Market

Person, company or association
holding and investing assets wisely
in trust for a beneficiary

Fiduciary

A method used to approximate the values on the yield curve for maturities that have no on the run security

Interpolation

**Body selected to provide guidance
to those responsible for the
investment of funds**

**Investment Oversight
Committee**

**Rate that the most creditworthy
banks dealing in Eurodollars
charge each other**

Libor

LIBOR stands for:

**London Interbank
Offered Rate**

**Companies that provide an
assessment of the credit worthiness
of an issuer**

**Nationally Recognized Statistical
Ratings Organizations (NRSROs)**

Name some of the NRSROs:

Moody's

Standard & Poor's

Fitch

Dun & Bradstreet

The risk that rates will fall and that cash flows from a security will have to be invested at lower levels

Reinvestment Risk

A line plotting the interest rates on
bonds of equal credit quality but
different maturity dates

Yield Curve

**An exchange of one security for
another to change the maturity,
credit quality or return on
a portfolio**

Swap

**Rate of return on a bond when the
call option is exercised**

Yield to Call

**Group of investment banks that
agree to purchase a new issue of
securities from an issuer and resell
it to investors**

Syndicate

**The current value of a future
payment, or stream of payments,
discounted at the appropriate
compound interest rate**

Present Value

The average time, in proportion to the dollar amount invested per security, that it takes for securities in a portfolio to mature

Weighted Average Maturity (WAM)

Section 4: 500 points

Discount rate at which the present value of the future cash flows of an investment equal the cost of the investment

**Internal Rate of Return
(IRR)**

**Bonds or notes backed by loans
(auto, boat) or receivables
(credit cards)**

Asset Backed Security

Mathematical concept that measures the sensitivity of the market price of an interest-bearing security to changes in interest rate levels/Describes the rate of change on the Price/Yield function

Convexity

Unique number identifying all
stocks and registered bonds

CUSIP Number

**For 1000 points:
What does CUSIP stand for:**

**Committee on Uniform Securities
Identification Procedures**

**The distribution of assets across
multiple asset types for the purpose
of diversification**

Asset Allocation

Auction system in which the price of a security is gradually lowered until all have been bid for and distributed at the lowest price

Dutch Auction

The observed sensitivity of a bond, to a given change in yield, calculated by revaluing the bond at higher and lower rates; usually used on bonds with embedded options

Effective Duration

The flat spread applied to the Treasury yield curve that is produced by a pricing model used to value the embedded options in the security

**Option Adjusted Spread
(OAS)**

Central securities repository where
stocks and bonds are exchanged

**Depository Trust
Corporation (DTC)**

**This return value takes into account
both the capital appreciation and
the income received on the
portfolio of investments**

Total Return

A contract that gives the buyer the right, but not the obligation, to buy or sell an asset at a specified price

Option

The risk that investment returns
might be negatively impacted due
to instability in a country
or jurisdiction

Political Risk

The standard used to guide those
with responsibility for investing the
money of others

Prudent Person/Investor Rule

Fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, and seek reasonable income and preservation of capital

An agreement between a buyer and seller where the seller agrees to buy back the security at an agreed upon price and date

Repurchase Agreement (Repo)

SEC Definition:
Securities whose cash flow characteristics depend upon one of more indices or that have embedded forwards or options

Structured Securities

**Rate of return, on a bond with
embedded options, that gives the
lowest anticipated yield**

Yield to Worst

Final Answer: ??? points

First developed by this individual in 1938 it is a mathematical concept that measures the volatility of a bond price or portfolio for a given change in yield.

Who is this individual and what was this concept?

Frederick Macaulay and Duration

Appendix Disclosure

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